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**PACIFIC NORTHERN GAS LTD.  
ANNUAL REPORT 1999**

**COMMITMENT & OPPORTUNITY**



## CORPORATE PROFILE

Pacific Northern Gas Ltd. delivers natural gas to customers in west-central British Columbia, and through its subsidiary, Pacific Northern Gas (N.E.) Ltd., to customers in the province's northeast.

Pacific Northern's transmission pipeline is connected to the Westcoast Energy Inc. system near Summit Lake, British Columbia and extends 365 miles to the west coast. Service is provided to over 23 thousand customers including a number of large industrial operations. In addition, propane vapour distribution is provided in the community of Granisle.

Pacific Northern Gas (N.E.) systems serve some 16 thousand customers in the Fort St. John, Dawson Creek and Tumbler Ridge areas. Gas supply is received at a number of locations within the Fort St. John service area. In the Dawson Creek area the Company's transmission pipeline is used to transport gas from the Westcoast Energy Inc. system. In Tumbler Ridge the Company operates its own gas processing plant.

Pacific Northern and its subsidiaries maintain service offices in 11 communities. Most of these locations also provide an operating base for construction crews and the personnel responsible for the operation and maintenance of the Company's compressor stations and gas plant. Marketing and administrative functions are supported from regional centres in Terrace, Dawson Creek and Fort St. John. The Company's head office is located in Vancouver, British Columbia.

### MAP OF OPERATIONS



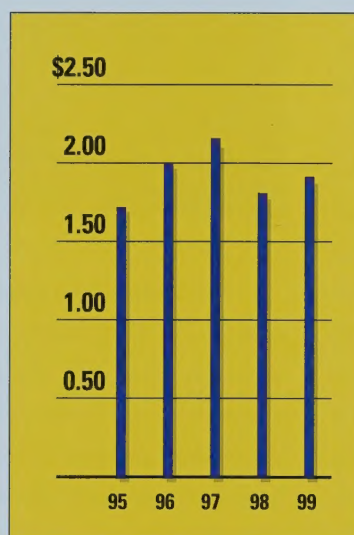
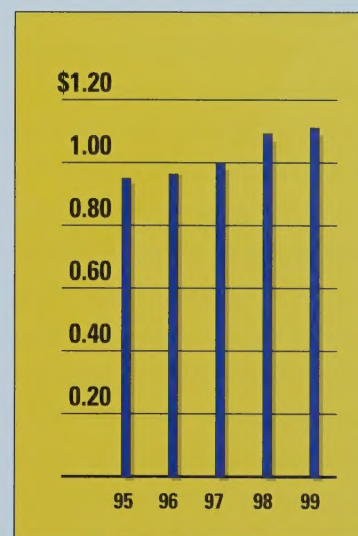


**COMPARATIVE FINANCIAL HIGHLIGHTS** Years ended December 31

|                                         | 1999     | 1998     | 1997     | 1996     | 1995     |
|-----------------------------------------|----------|----------|----------|----------|----------|
| Total energy delivered (TJ)             | 42 577   | 38 787   | 42 295   | 38 716   | 34 656   |
| Net income (000)                        | \$ 7,125 | \$ 6,454 | \$ 7,926 | \$ 7,385 | \$ 6,191 |
| Earnings per common share               | 1.92     | 1.73     | 2.16     | 2.01     | 1.67     |
| Dividends per common share              | 1.12     | 1.10     | 1.00     | 0.96     | 0.94     |
| Total investment in utility plant (000) | 182,917  | 180,224  | 177,562  | 158,239  | 156,350  |

**BUSINESS HIGHLIGHTS**

- Pacific Northern's net income was \$7.1 million in 1999, compared with \$6.5 million in 1998.
- After providing for preferred share dividends, earnings per common share in 1999 were \$1.92 compared with \$1.73 in 1998. Dividends paid to common shareholders were \$1.12, up two cents from the previous year.
- Gas deliveries during the year reached a record level of 42.6 petajoules, compared with 38.8 petajoules in 1998.
- Additions to property, plant and equipment totalled \$10.4 million in 1999, compared with \$10.6 million in 1998.
- Pacific Northern completed implementation of a new customer billing system.
- Upgrades and reinforcements of the Company's system included mainline pipe replacements and directionally drilled river crossings in the Terrace area and an additional gas supply interconnection in Fort St. John.
- Assets in northeastern British Columbia were amalgamated into Pacific Northern Gas (N.E.) Ltd.

**Earnings per Common Share****Dividends per Common Share**

# RESULTS



## A MESSAGE FROM THE CHAIRMAN

As we move into this new millennium it is important to reflect on the opportunities and challenges ahead.

Pacific Northern delivers a great product, natural gas, that is in abundant supply from traditional and frontier areas. Increasingly it is seen as part of the solution to the world's concern with global warming. Notwithstanding any regulations that may be imposed as a result of the Kyoto Accord on Climate Change, the clean-burning properties of natural gas will assure growing demand.

Growth in our traditional service area is dependent on local and provincial economies. Recently, the rate of growth has slowed. However, it is our expectation that government policy in the province will change to make the business climate more acceptable and thus attract more investment to the province.

The biggest challenge our Company will face in the near future is attracting sufficient capital to meet our mandate to serve current and future customers. Capital markets are focused on the momentum of technology stocks, with attention diverted from underlying balance sheets and earnings. Along with many other regulated companies we have seen a dramatic increase in the cost of equity capital as a result of the reduction in our share price. Contributing to our challenge is the low and recently diminishing return on equity allowed by our regulators.



The current state of capital markets requires that regulators recognize the dramatic, worldwide change of investor attitudes. A significant improvement in the level of potential return on equity is needed to assure that we will be able to raise the necessary capital to maintain a safe and growing operation that efficiently meets the needs of customers. Regulators may find this difficult to grant in the face of customer opposition. Much will need to be done to convince both regulators and customers of the need for increased opportunity for shareholder return. One of our important tasks at this time is to focus upon that need.

Our Company and the Canadian natural gas industry have built a strong

**ARTHUR H. WILLMS, CHAIRMAN OF THE BOARD  
AND ROY G. DYCE, PRESIDENT AND CEO.**

infrastructure. As stated, we have access to an abundant gas supply. We must maintain our momentum in supplying this superb fuel to our customers, current and future, by attracting the necessary capital to our sector. Success in this regard will be important to the maintenance of a strong economy in our province.

**ARTHUR H. WILLMS  
CHAIRMAN OF THE BOARD**

# CHALLENGES



**WOULD YOU PLEASE PROVIDE AN OVERVIEW OF IMPORTANT EVENTS FOR PACIFIC NORTHERN GAS DURING 1999?**

While 1999 was not without challenges, our natural gas deliveries and income were close to expected levels. Both rose significantly from the previous year. Deliveries reached a record level.

Among the challenges, a river washout and a massive glacial landslide resulted in two ruptures of our transmission mainline. Fortunately, in both events we were able to minimize disruption to industrial gas users and maintain uninterrupted service to our residential and small commercial customers.

An important goal in 1999 was to gain long-term extensions of delivery contracts to our largest industrial customers. While considerable progress was made, we are disappointed that our goal has not yet been achieved.

As for the future, we have clarified our vision and taken important steps towards its realization.

**WHAT WERE THE MAJOR ACHIEVEMENTS OF 1999?**

Achievements during the year that I consider particularly noteworthy include amalgamation of our northeastern operations, implementation of a new customer billing system and progress in upgrading our western transmission mainline.

Our activity in northeastern British Columbia commenced in 1993 with the acquisition of the Dawson Creek and Tumbler Ridge distribution systems. In 1997, we acquired the Fort St. John system as well as the transmission line serving Dawson Creek.

During the past year we amalgamated all of our northeastern assets into our subsidiary, Pacific Northern Gas (N.E.) Ltd. Necessary approvals were obtained for unification of the labour force and for integration of rates for the Dawson Creek and Fort St. John service areas. Improved efficiency is the most important result of this reorganization. We are able to eliminate duplication of the resources required to meet a number of our operational requirements.

A second achievement was implementation of the Banner® customer interface system to replace our obsolete in-house billing system. Others have suggested that installation of a new customer billing system is the greatest challenge a local distribution utility will face.

Pacific Northern worked very closely with Westcoast Energy's subsidiary, Enlogix CIS Inc., to install the new system. We were the first client to become operational with its commercial Banner® offering. The new system allows us to outsource a number of requirements to Enlogix and benefit from the economies of scale of their consolidated multi-client operations. At the same time it enhances functional

capability for our own users and provides access to ongoing developments to meet future business needs. Now that the system is operational, several changes in our business procedures are underway or planned for the transfer of responsibilities to field offices, to enhance efficiency and to improve customer service.

Another achievement was the progress towards completion of a multi-year program of upgrading and rehabilitating our western transmission mainline. Between 1989 and 1999 we have systematically worked our way along the line. Damaged pipe has been replaced or reinforced, and a number of sections relocated to reduce vulnerability to floods, avalanches and landslides. In total, several kilometres of pipe and some 20 watercourse crossings have been replaced. This work may be viewed as a long-term investment in the reliability of our system.

**WHAT ARE THE PROSPECTS FOR EXTENDED CONTRACTS WITH LARGE INDUSTRIAL CUSTOMERS?**

While the proportion of our margin from our three largest industrial customers has declined substantially in recent years, from 64 percent in 1994 to 50 percent in 1999, our success still remains highly dependent on these

# QUESTIONS

customers. Service to each is provided under one or more contracts. Our contract with Skeena Cellulose Inc. has matured and is now subject to automatic one year renewals unless either party gives notice. Our contract with Eurocan Pulp & Paper Co. extends to 2004, and contracts with Methanex Corporation continue through the 2002 to 2009 period.

Clearly the financial and investment communities consider it important that our largest customers reconfirm their long-term commitment to Pacific Northern for delivery of their energy supplies. Unfortunately, uncertainties concerning future ownership of the Skeena pulp mill and the Methanex methanol/ammonia complex make it difficult for them to make long-term commitments at this time. There is also the very serious question of the viability of the methanol/ammonia facility in light of excess methanol capacity and depressed prices, and innovative tolling may be required in order to secure a contract extension.

On a positive note, we recently reached agreement in principle with Eurocan on a ten-year extension of their contract. The new agreement also makes provision for relocation of our propane-air plant to their property. In the future it will be used for peak shaving and will permit cost savings with respect to gas supply contracts and transmission line expansions.

## **HOW WOULD INNOVATIVE TOLLING WORK?**

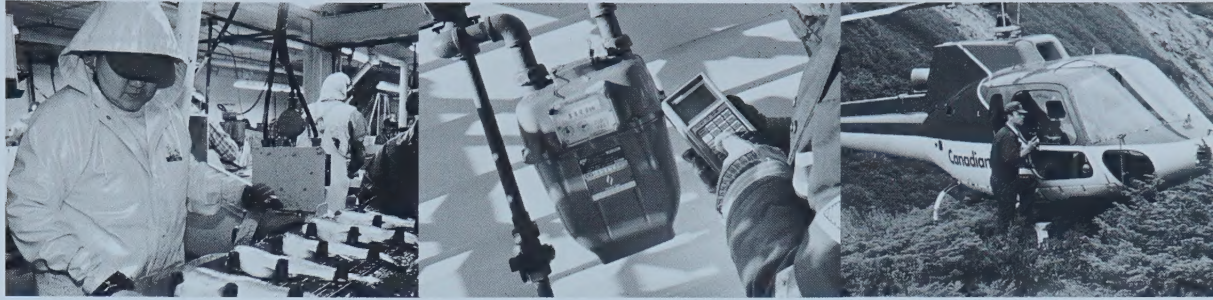
We have analyzed a number of possible modifications to our tariff for gas delivery to Methanex. Discussions continue on a favoured proposal which involves a variable toll with a fixed lower limit. Should methanol prices drop to or below an established level, the tariff would be adjusted to this lower limit. At higher methanol prices the toll would rise quite steeply to what we would consider a normal tariff and beyond. Provision would be required for offsetting shortfalls against surpluses over an agreed upon time period. More aggressive rate rebalancing, to fully recover the cost of serving other customer groups, can also contribute to a tariff reduction for Methanex without jeopardizing the position of natural gas as the fuel of choice for these customers.

## **THE RATE OF NEW CUSTOMER ATTACHMENTS HAS DIMINISHED. WHAT ARE THE IMPLICATIONS? WHAT ARE YOU GOING TO DO ABOUT IT?**

Along with many other North American gas utilities, Pacific Northern faces a decline in the number of new customer attachments. One reason is past success in converting customers to natural gas – few conversion candidates remain. In addition, our past main extension programs have reached most areas where service is economically viable. These facts limit future growth, leaving new construction as the main driver of customer additions.

Currently, we are also feeling the impact of a depressed provincial economy and challenges for resource-based industries such as forestry and fisheries, which are major economic contributors in our service areas. Thus, in addition to a fall-off in the rate of conversions and main extensions, we have experienced a marked decrease in new construction during the past two years. I believe we have seen the bottom





of the business cycle and expect a return to normal construction levels over the next couple of years.

Apart from the specific current conditions in our service areas, the question of what to do about declining customer additions remains. In Pacific Northern's case we will pursue other business interests – this is imperative to achieve satisfactory earnings growth. I also believe that we will benefit from new gas-intensive industrial projects or combined cycle power projects at the tidewater end of our system. With such projects we do not control the timing decisions, but when they happen the benefits to the Company will be enormous.

**WHAT IS YOUR VISION OF PACIFIC NORTHERN'S BUSINESS OVER THE NEXT FIVE YEARS AND WHAT ATTRIBUTES WILL ASSIST IN ITS ACHIEVEMENT?**

The vision is something both our management team and Board of Directors have focused on in this past year. We recognize our future could be seen as bleak, with declining rate base and earn-

ings, if we continue as little more than a regulated gas utility in our existing service areas. That future can be avoided, however, through a program of acquisitions and diversification. We are currently building our business development resources to support the required evolution of the Company.

During the past few months we have examined a number of alternatives. Those which remain under review offer the potential to contribute to significant growth in both our size and earnings. They could result in growth in our gas utility operations as well as entry into non-regulated energy transportation services to individual industrial users or small user groups. We are also open to participation in energy projects or systems with existing or future customers.

As for attributes, we will capitalize on several in achieving our vision. We are efficient in providing a high level of customer service in small and mid-sized communities. Our track record of commitment to our communities will

serve us well. Another strength, due to our size, is the diversity of talents of our management team and operational personnel. They are capable of moving quickly through stages of analysis, decision making, planning and project management on the opportunities we identify. This allows us to undertake projects that larger organizations may find unattractive. We are experienced and competent in constructing projects in difficult or remote terrain. Overall, we are uniquely qualified and well positioned to successfully undertake small to medium scale energy delivery projects in remote areas.

# AND ANSWERS



Having mentioned our employees, I would like to acknowledge their contribution. They continue to earn the respect of our customers through their hard work and ability to rise to the challenges of operating our system and adapting to an ever changing business environment. Also to be acknowledged are two members of our Board of Directors. Graham Wilson resigned from the Board in October after eleven years of service. Also, Richard Walker stepped down as Chairman but will continue to serve as a Board member. My thanks to both for their commitment to Pacific Northern and the support and guidance they have provided to me.

### **PACIFIC NORTHERN HAS NOT FOLLOWED THE TREND TO CENTRALIZE CUSTOMER CARE. WHY NOT?**

I sincerely believe that a large proportion of our customers are conscious of Pacific Northern's presence in their communities and appreciate the full, in-person customer service we continue to offer. One could argue that we could get by with a lower level of service, but the reality is that our employees behind the counters also do a considerable amount to support the work of our operations and technical personnel. In several communities our offices are small, but from an operational and safety perspective, considering dis-

tances, it is desirable to have employees in these communities. Their presence is further justified by their ability to assume a number of functions including operations and meter reading as well as customer service.

As we make changes to take full advantage of our new Banner® customer information system we will gain additional justification for our full service offices. At present, we are in the process of transferring a number of customer care functions to the field and we will gain efficiency and improve customer service as a result.

### **GIVEN THE CURRENT ECONOMIC ENVIRONMENT, WHAT IS THE OUTLOOK FOR GROWTH IN YOUR SERVICE AREAS?**

In the forest sector, value added activities have gained a foothold and will undoubtedly expand. In fisheries, there is growing interest in improved processing and handling and in diversification into a number of other marine product lines. In our northeastern service area we have strong activity in the oil and gas sector and the expectation of continuing growth. Similar activity may develop in the future in the offshore area at the west end of our system. We are also witnessing a broadening of the economic base in our service areas, resulting in increasing levels of self reliance for goods production, education, recreation and medical services. Our small to mid-sized communities offer an extremely desirable

lifestyle and now have equal access to all of the benefits of instantaneous world-wide electronic communications.

Aboriginal claims raise a level of uncertainty for various participants in the economy. We are confident these will be resolved, and that Aboriginal control of resources will not significantly impact their utilization.

For a number of years we have referred to our service areas as a Corridor for Growth. Others share that vision, and we have joined forces with them as founding members of a private/public organization, the Northwest Corridor Development Corporation. The Corporation is actively promoting the advantages of increased goods movements and development in this corridor which links Prince Rupert and Kitimat to key North American centres of economic and industrial activity. Our natural advantages include distance and shipping time to Pacific Rim ports, underutilized transportation capacity and modest infrastructure requirements for growth. As is the case on our pipeline system, expansion of goods movements will lower average costs.

Overall, the future for our service areas appears bright and Pacific Northern is well positioned to benefit.



## MANAGEMENT'S DISCUSSION AND ANALYSIS



# OPPORTUNITY



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL PERFORMANCE

Pacific Northern's net income in 1999 was \$7.1 million, compared with \$6.5 million in 1998. After providing for preferred share dividends, earnings per common share were \$1.92 compared with \$1.73 in the previous year. Dividends paid to common shareholders were \$1.12 compared to \$1.10 in 1998. The change reflects an increase in the quarterly dividend rate from 26 to 28 cents per share in the second quarter of 1998.

The primary factor resulting in the increase in net income was an increase in gas deliveries.

### GAS DELIVERIES

Natural gas deliveries totalled 42.6 petajoules\* during 1999, compared with 38.8 petajoules in 1998. The increase in deliveries is attributed to:

- colder than average weather, compared to the warmer than average weather experienced in the previous year. Deliveries to temperature-sensi-

tive core market customers rose from 6.6 petajoules in 1998 to 7.7 petajoules;

- an aggregate 3.0 petajoule increase in gas deliveries to the Company's three largest customers;
- increases in deliveries to a number of small industrial customers relative to the depressed levels recorded in 1998.

### GAS SUPPLY

All of the Company's residential customers, most of its commercial customers and a number of its industrial customers continue to rely on the Company for arrangement of their gas supply, and pay tariffs which include gas supply and service costs. From the Company's perspective, as the cost of gas is passed through to customers in rates and subsequent rate adjustments, involvement in gas supply has little impact on financial performance.

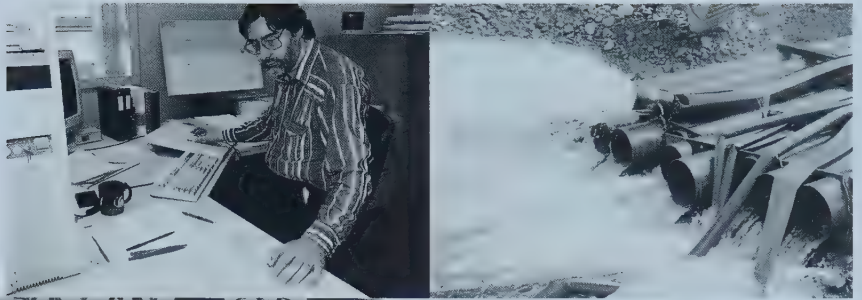
Pacific Northern's larger customers typically arrange for their own firm gas supplies and contract for transportation service on the Company's system. A number of these customers also purchase gas from the Company when available supply is surplus to the needs of core market customers, or arrange interruptible trans-

portation service if capacity is available on the system. Among the industrial transportation customer group, a few of the smaller customers requested transfers to sales service in the latter part of 1999 and the Company reassumed management of their gas supply.

All of the Company's gas supply is produced in British Columbia. To meet the requirements of its core market customers, natural gas is purchased under long-term, short-term and spot contracts. Contracted gas that is surplus to the requirements of these customers in

*\* The joule is a metric energy measurement unit. One gigajoule (GJ) is equivalent to 0.94782 million British thermal units. One terajoule (TJ) equals one-thousand GJ. One petajoule (PJ) equals one-million GJ. In volumetric units, 1000 cubic metres is equivalent to 35.301 thousand cubic feet.*





non-peak periods is either sold on an interruptible basis, directed to underground storage or sold off-system. The use of storage provides a hedge against price volatility and an opportunity to minimize the cost of firm gas supply.

Natural gas is purchased at prevailing market prices. Variances in gas purchase prices from those included in current retail rates are deferred for subsequent refund to or recovery from customers.

The majority of the Company's gas supply is comprised of the pooled gas stream available from the Westcoast Energy Inc. transmission pipeline system. This includes all of the supply to the Company's transmission line serving its western service area and portions of



the supply for the Fort St. John and Dawson Creek service areas. In addition to the supply from Westcoast, the Fort St. John system incorporates two supply interconnections with TransCanada Midstream's West Stoddart Pipeline. In Dawson Creek a portion of the required supply is received from a local producer of sweet (pipeline quality) gas at a point where its system intersects Pacific Northern's transmission line. In Tumbler Ridge, all of the gas supply is obtained in the form of raw gas production from a local producer and the Company operates its own gas processing facilities.

A long-term contract with CanWest Gas Supply Inc. accounted for the majority of 1999 purchases. Other supplies included purchases under seasonal and spot arrangements.

### **MAIN EXTENSIONS AND CUSTOMER ADDITIONS**

A total of 430 customers were added to the Company's distribution systems during 1999 compared with 1,140 in 1998. For the second consecutive year there was a decline in the number of additions. In part, this is a result of the limited number of candidates remaining for conversion to natural gas in the existing building stock and limited remaining opportunity to extend gas mains into unserved rural areas. More importantly, during the past year, depressed economic conditions resulted in a severe downturn in new construction activity.

### **ENGINEERING AND OPERATIONS**

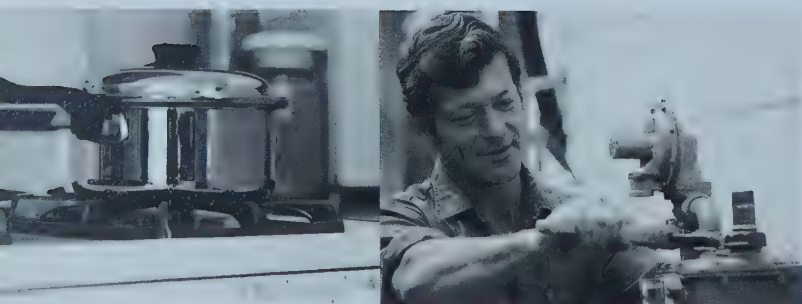
In 1989 Pacific Northern launched a rehabilitation program on its western transmission mainline. The program neared completion in 1999 with additional sections of pipe replacement between Terrace and Prince Rupert and river crossing replacements between Terrace and Kitimat. In total, the multi-year project has included

extensive pipe reinforcement, replacement and relocation, and reinstallation of some 20 river crossings for which erosion and shifting channel locations placed the original pipe in jeopardy. With the advent and availability of directional drilling, environmental disruption has been minimized during installation of the replacement crossings and the pipe has been more securely placed than would have been possible with traditional open cut installation methods.

The Company continued its stress corrosion cracking investigations and repairs during the year. A number of corrosion colonies were identified in the mainline downstream from the Summit Lake compressor station and the pipe was either repaired or replaced.

Work on replacement of the Company's supervisory control and data acquisition (SCADA) system has been completed. The new SCADA system permits convenient monitoring of system operation by Company personnel with appropriately configured laptop computers as well as electronic communications with the gas control centre to manage system operation.

In Fort St. John the Company installed the second of two interconnections with TransCanada Midstream's West Stoddart Pipeline. The connec-





tion reinforces supply to Fort St. John and improves capability to extend and expand service in the northern portion of the service area.

In March 1999, the Company initiated a directional drilling project to replace a section of the transmission mainline under a channel of the Skeena River between Terrace and Prince Rupert. The original crossing was known to be jeopardized by shifting of the river channel. Challenging drilling conditions and the rising river level resulted in suspension of the project prior to its completion. After the suspension a washout severed the original channel crossing. The possibility of this event had been recognized. Accordingly, a temporary drilling service line across the channel had been connected via valves to the mainline at the time the replacement project was suspended. Gas was diverted through this temporary line only a few hours after the washout. During the incident there was no disruption of supply to core market customers in Prince Rupert. Service to the Skeena Cellulose pulp mill was suspended for a period of seven hours.

The project to replace the channel crossing resumed after the water level in the Skeena River returned to an acceptable level. The new crossing was



# DEDICATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *CONTINUED*

completed and placed in service in November. Costs of both stages of the channel replacement project totalled \$3.5 million. The Company anticipates recovery from insurance of a substantial portion of costs incurred after the washout and resumption of the replacement project.

During September 1999, a major glacial landslide in the Telkwa Pass ruptured the transmission mainline and a parallel section of mainline loop. The width of the slide area was approximately 350 meters. As a temporary repair, two small diameter lines were installed across the relatively unstable slide area and connected to the mainline. This was followed by installation of a temporary larger diameter line across the slide. After consideration of a number of alternatives for permanent replacement of the pipe, it was decided to relocate the right of way to the opposite side of the valley. Necessary permits were obtained and work on the three kilo-

metre section of mainline and loop replacement was initiated in November. The replacement was placed in service at the end of January 2000.

Linepack isolated downstream from the slide area and underground storage in large diameter pipes in the Prince Rupert area were utilized to maintain service to core market customers in the Terrace, Kitimat and Prince Rupert areas until the temporary lines were installed across the slide. Service to Skeena Cellulose and interruptible commercial customers was suspended until the small diameter lines were placed into service, while service to Methanex was not restored until the temporary, larger diameter line was connected.

Costs of temporary lines across the Telkwa Pass slide and the subsequent installation of the relocated transmission mainline and loop are estimated to total \$3.9 million. The Company anticipates recovery of a significant portion of the temporary repair and pipeline relocation costs from insurance proceeds. An uninsured loss of margin of approximately \$0.6 million resulted during the period in which service to

industrial transportation customers was suspended. The Company has recorded income in 1999 of \$0.3 million net of income taxes relating to this loss of margin. The ultimate realization of this asset is subject to a future decision by the British Columbia Utilities Commission.

### REGULATORY ACTIVITIES

The revenue requirement applications for 1999 for all service areas were settled through negotiations with the customers under alternate dispute resolution processes supervised by staff of the British Columbia Utilities Commission. With respect to the western transmission and distribution systems, agreement was reached to continue the process of adjusting residential, commercial and industrial rates, with overall increases for some rate classes subject to offsetting reductions for others. This is in line with the Company's objective to adjust rates to more appropriately reflect costs of serving each customer class.

The application to integrate the rates for the Fort St. John and Dawson Creek service areas was also settled through discussions with customers and Utilities Commission staff. These areas are now served by a single corporate entity resulting from the amalgamation of Pacific Northern's wholly owned subsidiaries Centra Gas Fort St. John Inc.,





Peace River Transmission Company Limited and Pacific Northern Gas (N.E.) Ltd. under the latter company's name.

In conjunction with the Fort St. John and Dawson Creek amalgamation and rate integration, the Company applied to the British Columbia Labour Relations Board to unify its labour force under a single labour organization. The Board granted approval of the request in October 1999. As a result, changes in functional responsibilities of personnel that are underway or planned will eliminate the duplication of resources and improve operating efficiency.

The Utilities Commission revised the formula for determining the return on common equity for the low risk benchmark utility. Based on the revised formula, the Commission determined that 9.5 percent was the appropriate return on common equity for a low risk benchmark utility in the year 2000. The return on common equity for Pacific Northern is determined based on its

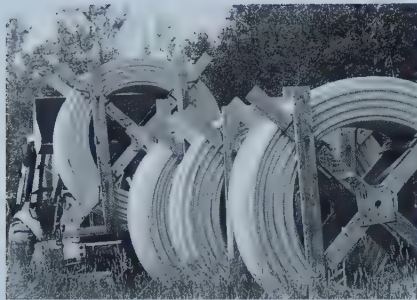
risk premium relative to the low risk benchmark utility. The Company's 2000 revenue requirement applications seek approval of increases in the historical relative risk premiums for a variety of reasons. As was done in 1999 the 2000 applications will be the subject of a negotiated settlement process supervised by Commission staff in early March 2000.

#### **LARGE INDUSTRIAL CUSTOMERS**

The Company delivers gas under long-term agreements for firm transportation service and interruptible sales to its three largest customers: Methanex Corporation, Skeena Cellulose Inc. and Eurocan Pulp & Paper Co. These customers produce commodities which are subject to world commodity price fluctuations. The Company's gas deliveries to these customers may be affected by their ability to continue operations during sustained periods of low commodity prices.

During 1999, gas deliveries to Methanex accounted for 58 percent of the total gas deliveries through the Company's system and 27 percent of the Company's revenues. These deliveries were made pursuant to three agreements for firm transportation service and interruptible sales that expire between 2002 and 2009. The agreements contain minimum volume provisions which have the effect of limiting the Company's exposure to fluctuations in markets for methanol and ammonia. The provisions require Methanex to take delivery of, or in any event pay for a minimum level of 80 percent of the contracted volumes of gas. The Government of British





Columbia guarantees Methanex's performance under the contract which expires in 2002 and covers 77 percent of the total contracted capacity.

World prices for methanol remained at low levels throughout 1999. Methanex has stated that it wishes to reduce costs at its higher-cost plants, including the plant at Kitimat, and that it is seeking substantial reductions in its gas transportation costs. In June 1999, Methanex announced it had entered into a letter of intent with Acetex Corporation to transfer ownership of its Kitimat methanol facilities to Acetex for \$1 and other considerations. The transfer has yet to be completed. Methanex recorded a U.S. \$55 million write-off of its Kitimat methanol facility in 1999.



The Company is currently engaged in discussions with Methanex regarding mutually acceptable modifications of gas delivery contracts.

The Company's second and third largest customers, Eurocan and Skeena, operate pulp mills in Kitimat and Prince Rupert respectively. During 1999, gas deliveries to Eurocan accounted for 7.8 percent of the Company's total gas deliveries and 4.4 percent of total revenues while gas deliveries to Skeena accounted for 6.3 percent of deliveries and 4.1 percent of revenues.

Following a three month suspension of operations in 1997, and a period of protection under the Companies' Creditors Arrangement Act, a restructuring plan was approved by Skeena's creditors in early 1998. The Company's long-term transportation service and sales contract with Skeena matured in 1999, and is now in the first year of an evergreen one-year renewal. Discussions with Skeena are underway concerning a long-term extension of the contract. The Company's transportation service and sales contract with Eurocan matures in 2004. Agreement in principle has been reached with Eurocan on a ten-year extension of this contract.

## **INFORMATION SYSTEMS**

Prior to and during 1999 the Company completed a comprehensive inventory and review of its electronic information and control systems. Various computer and embedded logic equipment was remediated or replaced to alleviate Year 2000 concerns. The Company also completed extensive reviews with its suppliers and customers, and worked with other companies in the Westcoast Energy group of companies in its Year 2000 preparations.

To support activity at year-end 1999, a Year 2000 Rollover Plan and a Business Continuity Plan were prepared, and review sessions were conducted with relevant personnel. Key personnel were assigned to be on-site at critical locations including compressor stations, the Tumbler Ridge gas plant and the Vancouver office during December 31st and January 1st. All systems performed correctly during the rollover period and no disruptions were experienced when Company offices reopened for business in the first week of January 2000.

To improve electronic communications between Company offices, support the new customer interface and financial information systems and assure Year 2000 performance, the Company completed a major upgrade

of its computer and communications systems during the year. All offices are now included in a networked computer system and larger offices have local server units to support their internal operations. In an arrangement with other companies in the Westcoast Energy group of companies, Pacific Northern has gained access to a wide range of computer based training modules. These are available to Company personnel to support their use of new computer systems.

Pacific Northern replaced its customer billing system in mid-1999. The previous in-house system was used to bill customers in the western service area, Dawson Creek and Tumbler Ridge, while service for Fort St. John customers was outsourced. Each of these systems would have required extensive remediation to operate beyond 1999. Obsolescence and capacity limitations precluded remediation of the internal system, and the Company had been advised that the service for Fort St. John would be terminated.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *CONTINUED*

The replacement Banner® Customer Interface System (CIS) is being sourced from Westcoast Energy Inc.'s subsidiary, Enlogix CIS Inc. Under agreements with Enlogix, Pacific Northern is now outsourcing a number of requirements including data processing, database maintenance, bill preparation and mailing and remittance processing. Economies of scale resulting from the aggregate scale of Enlogix's operations permit these services to be obtained at a lower cost than the Company could achieve internally. Adoption of the Banner® system is also permitting a number of improvements in customer care, billing and accounting practices, primarily as a result of the system's ability to support on-line service functions at each of the Company's offices.

### **SAFETY, HEALTH AND ENVIRONMENT**

During the year, the Company implemented the SHEER (Safety, Health, Environment and Emergency Response) Program to integrate and coordinate management in these areas. Activities included development of a handbook to guide on-site response of field staff to environmental, health and safety incidents. Also, a risk assessment protocol was developed, followed by completion of a risk assessment of the Company's operations by its internal Environmental Management System Committee.

### **OPERATING ACTIVITIES**

Additions to property, plant and equipment totalled \$10.4 million in 1999 compared with \$10.6 million in 1998. Operating, maintenance and administrative costs totalled \$18.9 million, an increase of \$2.2 million relative to 1998. In addition to higher costs associated with inflation and customer account growth, the increase reflects the additional costs of fuel gas to move increased deliveries, Year 2000 preparation and a greater focus on pipeline rehabilitation and maintenance.

### **LIQUIDITY AND CAPITAL RESOURCES**

The Company's investment activities are financed by cash generated from operations, together with proceeds from the issue of long-term debt and share capital.

During 1999, junior preferred shares were redeemed in the amount of \$3.5 million. The redemption arises from the application of losses acquired in 1996, which generated income tax savings of \$0.4 million in 1999.

The Company has an unsecured demand line of credit in the amount of \$35 million. This provides working capital as well as interim financing for capital programs and required sinking fund payments on outstanding debentures. Although the line of credit has been substantially drawn down, the Company expects to be able to finance its capital expenditure program and sinking fund payments for 2000 from

cash generated from operations and by drawing upon the available balance of the line of credit. The lender has approached the Company regarding security for the unsecured line of credit. The parties are considering available options to provide such security.

Following the announcement of the planned sale of the Kitimat methanol plant by Methanex Corporation to Acetex Corporation, as described above under "Large Industrial Customers", Dominion Bond Rating Service Limited ("DBRS") reduced the rating of the Company's secured debentures and preferred shares from BBB (high) to BBB and from Pfd-3 (high) to Pfd-3, respectively. Among the items reflected in the DBRS decision were concerns regarding the depressed commodity price of methanol and that Acetex is a considerably weaker credit than Methanex. The Company does not currently intend to access the long-term debt markets until the status of the Kitimat methanol plant is clarified.





# PERFORMANCE

## AUDITORS' REPORT

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To the Shareholders of  
Pacific Northern Gas Ltd.

We have audited the consolidated balance sheets of Pacific Northern Gas Ltd. as at December 31, 1999 and 1998 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an

audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flow for the

years then ended in accordance with accounting principles generally accepted in Canada. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis, after giving retroactive effect to the change in accounting principles for cash flow as explained in note 14 to the financial statements.

**Ernst & Young LLP**  
Chartered Accountants

Vancouver, Canada,  
February 1, 2000

## RESPONSIBILITY FOR FINANCIAL STATEMENTS

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The accompanying consolidated financial statements were prepared by management of the Company in conformity with accounting principles generally accepted in Canada applied on a consistent basis. Management is responsible for the integrity and objectivity of the information contained in the consolidated financial statements. Management is also responsible for installing and maintaining appropriate internal controls, policies and procedures, which provide reasonable assurance

that reliable financial information is produced and that the Company's assets are safeguarded. Ernst & Young LLP, Chartered Accountants, as the Company's external auditors appointed by the shareholders, have examined the consolidated financial statements for the years ended December 31, 1999 and 1998, in accordance with auditing standards generally accepted in Canada and rendered their independent opinion thereon. The Audit Committee of the Board of Directors meets with the

external auditors to review the manner in which they are performing their responsibilities and to discuss auditing, internal accounting controls and financial reporting matters. The external auditors have full access to the Audit Committee of the Board.



## CONSOLIDATED STATEMENTS OF INCOME

| <b>Years ended December 31 (<i>thousands of dollars</i>)</b> | <b>1999</b>     | <b>1998</b>     |
|--------------------------------------------------------------|-----------------|-----------------|
| Operating revenues ( <i>notes 1 and 10</i> )                 | \$ 77,738       | \$ 72,144       |
| Cost of sales ( <i>note 10</i> )                             | 24,778          | 20,887          |
| Operating margin                                             | 52,960          | 51,257          |
| Operating and maintenance                                    | 13,478          | 11,756          |
| Administrative and general                                   | 5,399           | 4,951           |
| Amortization of deferred charges                             | 867             | 1,383           |
| Municipal and other taxes                                    | 3,999           | 3,908           |
| Depreciation                                                 | 7,227           | 6,939           |
|                                                              | 30,970          | 28,937          |
| Operating income                                             | 21,990          | 22,320          |
| Investment and other income                                  | 79              | 145             |
|                                                              | 22,069          | 22,465          |
| Income deductions:                                           |                 |                 |
| Interest on long term debt                                   | 8,354           | 8,662           |
| Other interest                                               | 775             | 790             |
|                                                              | 9,129           | 9,452           |
| Income before income taxes                                   | 12,940          | 13,013          |
| Income taxes ( <i>note 3</i> ) – currently payable           | 770             | 1,376           |
| – deferred                                                   | 5,045           | 5,183           |
|                                                              | 5,815           | 6,559           |
| <b>Net income for the year</b>                               | <b>\$ 7,125</b> | <b>\$ 6,454</b> |
| <b>For common shares</b>                                     |                 |                 |
| Net income for the year                                      | \$ 7,125        | \$ 6,454        |
| Provision for dividends on preferred shares                  | 337             | 337             |
| <b>Net income applicable to common shares</b>                | <b>\$ 6,788</b> | <b>\$ 6,117</b> |
| <b>Per common share (<i>note 5</i>)</b>                      |                 |                 |
| Basic                                                        | \$ 1.92         | \$ 1.73         |
| Fully diluted                                                | \$ 1.87         | \$ 1.69         |

*See accompanying summary of accounting policies and notes*

## CONSOLIDATED BALANCE SHEETS

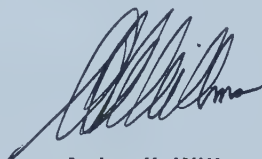
| As at December 31 ( <i>thousands of dollars</i> ) | 1999       | 1998       |
|---------------------------------------------------|------------|------------|
| <b>ASSETS</b> ( <i>note 7</i> )                   |            |            |
| Current assets                                    |            |            |
| Accounts receivable ( <i>note 1</i> )             | \$ 20,019  | \$ 12,904  |
| Inventories of supplies and natural gas           | 6,996      | 5,010      |
| Prepaid expenses                                  | 504        | 571        |
|                                                   | 27,519     | 18,485     |
| Plant, property and equipment ( <i>note 2</i> )   | 182,917    | 180,224    |
| Deferred charges                                  |            |            |
| Debt expense                                      | 818        | 888        |
| Pipeline rehabilitation costs                     | 3,542      | 2,802      |
| Other                                             | 3,957      | 1,635      |
|                                                   | 8,317      | 5,325      |
|                                                   |            |            |
|                                                   | \$ 218,753 | \$ 204,034 |

See accompanying summary of accounting policies and notes

On behalf of the Board:



Roy G. Dyce  
Director



Arthur H. Willms  
Director



# CONSOLIDATED BALANCE SHEETS, *CONTINUED*

| As at December 31 ( <i>thousands of dollars</i> )           | 1999       | 1998       |
|-------------------------------------------------------------|------------|------------|
| <b>LIABILITIES</b>                                          |            |            |
| Current liabilities                                         |            |            |
| Bank indebtedness ( <i>note 6</i> )                         | \$ 34,000  | \$ 19,547  |
| Accounts payable and accrued liabilities ( <i>note 10</i> ) | 10,169     | 8,705      |
| Income and other taxes payable                              | 1,866      | 715        |
| Long-term debt due within one year ( <i>note 7</i> )        | 3,310      | 3,327      |
|                                                             | 49,345     | 32,294     |
| Long-term debt ( <i>note 7</i> )                            | 85,593     | 88,894     |
| Deferred income taxes                                       | 12,789     | 11,126     |
|                                                             | 147,727    | 132,314    |
| Commitments and contingency ( <i>notes 12 and 13</i> )      |            |            |
| <b>SHAREHOLDERS' EQUITY</b>                                 |            |            |
| Preferred shares ( <i>note 8</i> )                          | 6,715      | 10,261     |
| Common shares ( <i>note 9</i> )                             | 8,839      | 8,836      |
| Contributed surplus ( <i>note 9</i> )                       | 2,047      | 2,026      |
| Retained earnings                                           | 53,425     | 50,597     |
|                                                             | 64,311     | 61,459     |
|                                                             | 71,026     | 71,720     |
|                                                             | \$ 218,753 | \$ 204,034 |

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

| Years ended December 31 (thousands of dollars) | 1999      | 1998      |
|------------------------------------------------|-----------|-----------|
| Balance, beginning of year                     | \$ 50,597 | \$ 48,368 |
| Net income for the year                        | 7,125     | 6,454     |
|                                                | 57,722    | 54,822    |
| Preferred dividends                            | 337       | 337       |
| Common dividends                               | 3,960     | 3,888     |
|                                                | 4,297     | 4,225     |
| Balance, end of year                           | \$ 53,425 | \$ 50,597 |

See accompanying summary of accounting policies and notes

## CONSOLIDATED STATEMENTS OF CASH FLOW

| Years ended December 31 (thousands of dollars)      | 1999     | 1998     |
|-----------------------------------------------------|----------|----------|
| <b>OPERATING ACTIVITIES</b>                         |          |          |
| Net income for the year                             | \$ 7,125 | \$ 6,454 |
| Add (deduct) items not involving cash:              |          |          |
| Deferred income taxes                               | 5,045    | 5,183    |
| Depreciation and amortization                       | 8,094    | 8,322    |
| Other                                               | (3,347)  | 319      |
| Operating cash flow                                 | 16,917   | 20,278   |
| Non-cash working capital changes                    | (7,089)  | (635)    |
| Net cash provided by operating activities           | 9,828    | 19,643   |
| <b>INVESTING ACTIVITIES</b>                         |          |          |
| Additions to plant, property and equipment          | (10,412) | (10,600) |
| Deferred charge expenditures                        | (2,732)  | (1,241)  |
| Net cash used by investing activities               | (13,144) | (11,841) |
| <b>FINANCING ACTIVITIES</b>                         |          |          |
| Increase in bank indebtedness                       | 14,453   | 2,202    |
| Repayment of long-term debt                         | (3,318)  | (2,700)  |
| Issue of common shares (note 9)                     | 24       | 88       |
| Redemption of junior preferred shares (note 8)      | (3,546)  | (3,348)  |
| Dividends paid                                      | (4,297)  | (4,225)  |
| Net cash provided by (used by) financing activities | 3,316    | (7,983)  |
| Decrease in cash during the year                    | —        | (181)    |
| Cash, beginning of year                             | —        | 181      |
| Cash, end of year                                   | \$ —     | \$ —     |

See accompanying summary of accounting policies and notes



### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Pacific Northern Gas Ltd. (the “Company”) and its wholly-owned subsidiary, Pacific Northern Gas (N.E.) Ltd. On June 30, 1999, pursuant to regulatory approval, Centra Gas Fort St. John Inc., Peace River Transmission Company Limited with Pacific Northern Gas (N.E.) Ltd., all wholly-owned subsidiaries, were amalgamated and continued as Pacific Northern Gas (N.E.) Ltd. The amalgamation was accounted for using the continuity of interests method of accounting, under which the recorded book values of each company are aggregated together as if the companies had always been combined.

### REGULATION

The Company and Pacific Northern Gas (N.E.) Ltd. are regulated utilities engaged in the transportation and distribution of natural gas. Their accounting records and practices conform to the requirements of the British Columbia Utilities Commission (the “Commission”).

### REVENUE RECOGNITION

Operating revenues include natural gas sales which are recorded on the basis of regular meter readings and estimates of customer usage from the last meter reading date to the end of the year. Operating revenues also include transportation revenues which are recorded as service is provided.

### INVENTORIES OF SUPPLIES AND NATURAL GAS

Inventories of supplies and line-pack natural gas are valued at the lower of cost determined on a first-in, first-out basis and net realizable value. Inventories of natural gas in storage are valued at the lower of average cost and net realizable value.

### PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment are recorded at cost less contributions in aid of construction. Cost includes an allowance for funds used during construction calculated at the Company’s cost of capital. The cost of depreciable assets retired, together with removal costs, less salvage is charged to accumulated depreciation. Gains or losses on disposal are not taken into income unless the disposal is outside the normal course of business or involves a major item of plant.

Depreciation is provided on a straight-line basis for plant in service at the commencement of each fiscal year at rates prescribed by the Commission. Average annual depreciation rates are 2.8% [1998 - 2.9%] for transmission plant, 2.6% [1998 - 2.6%] for distribution plant, 5.4% [1998 - 5.1%] for general plant and 5.1% [1998 - 4.9%] for processing plant. Application of these rates for the year ended December 31, 1999 resulted in a composite rate of 2.9% [1998 - 2.9%].

### DEFERRED CHARGES

#### *[a] Debt expense*

Debt expense comprises issue costs of long term debt which are amortized on a straight-line basis over the term of the related issue.

#### *[b] Pipeline rehabilitation costs*

Pipeline rehabilitation costs are being amortized on a straight-line basis over ten years. The amount of such amortization in 1999 was \$605,200 [1998 - \$567,000].

## SUMMARY OF ACCOUNTING POLICIES, *CONTINUED*

### *[c] Other*

Costs as required or permitted by the Commission have been deferred to be recovered from future revenues. During 1999, \$261,200 was charged to income [1998 - \$1,478,000 credited to income] in respect of these deferred costs. Certain regulatory deferrals, including linebreak costs and gas purchase variance amounts, are subject to future decisions by the Commission who will determine the treatment to be given the various items. The Company has recorded income of \$305,000 net of income taxes relating to loss of margin attributable to a landslide which disrupted service to primarily one industrial customer for a period of approximately ten days. The ultimate realization of the asset created thereby is subject to a future decision of the Commission.

In March 1997, an industrial customer, Skeena Cellulose Inc., obtained protection from creditors under the Companies' Creditors Arrangement Act. The Commission authorized the Company to record losses arising in both 1997 and 1998 from this event as deferred charges. At December 31, 1999, the deferred charges amounted to \$454,900 [1998 - \$817,000], net of income taxes and amortization. The deferred charges arising in 1997 are being amortized on a straight-line basis over three years commencing January 1, 1998. The deferred charges arising in 1998 are being amortized on a straight-line basis over three years commencing January 1, 1999.

### INCOME TAXES

The Company provides for income taxes using the taxes payable method as directed by the Commission, except as described below.

The Commission has directed that the deferral method of accounting for income taxes be followed by certain divisions of Pacific Northern Gas (N.E.) Ltd. and for certain transactions within the Company. Under the deferral method of accounting for income taxes, reported earnings are charged with the income taxes related to those earnings. Differences between these taxes and taxes currently payable, arising mainly from differences in the timing of expense deductions, are recorded as deferred income taxes.

From July 1, 1978 until its suspension on November 1, 1986, the deferral method was followed by the Company. Had the deferral methodology been followed continuously since the inception of the Company, deferred income taxes recorded in the accounts would have been increased by approximately \$15,263,000 [1998 - \$14,823,000].

### STOCK BASED COMPENSATION PLAN

The Company has one stock-based compensation plan, which is described in Note 9. No compensation expense is recognized for this plan when the stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital and contributed surplus.

### PENSION AND OTHER POST-RETIREMENT EMPLOYEE BENEFITS

The Company maintains both defined contribution and defined benefit pension plans. For the defined contribution plan, contributions payable by the Company are expensed as pension costs. Pension costs and obligations for the defined benefit pension plans are determined annually by independent actuaries using management's best estimates and are charged to earnings as services are rendered. Pension assets are valued by using average market related values over a 3 year period. Pension expense consists of current service costs and adjustments arising from plan amendments, changes in assumptions, and experience gains or losses which are amortized on a straight-line basis over the expected average remaining service life of the plan members.

Certain health care and life insurance benefits are provided for employees after retirement. The cost of these benefits is expensed as incurred.

### COMPARATIVE FIGURES

Certain of the prior year figures have been restated to conform with the current year's presentation



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. MAJOR CUSTOMERS

The proportion of energy deliveries and operating revenues attributable to large industrial customers is as follows:

| Percent                                                                                          | 1999<br>Operating<br>Energy Revenues |    | 1998<br>Operating<br>Energy Revenues |    |
|--------------------------------------------------------------------------------------------------|--------------------------------------|----|--------------------------------------|----|
| Methanex Corporation                                                                             | 58                                   | 27 | 58                                   | 31 |
| Skeena Cellulose Inc.,<br>Eurocan Pulp and Paper Co.<br>and Alcan Smelters<br>and Chemicals Ltd. | 16                                   | 11 | 16                                   | 12 |

At December 31, 1999, 13% [1998 - 19%] of accounts receivable was attributable to these four large industrial customers.

### 2. PLANT, PROPERTY AND EQUIPMENT

| Thousands of dollars                | 1999       | 1998       |
|-------------------------------------|------------|------------|
| Transmission plant                  | \$ 169,377 | \$ 163,002 |
| Distribution plant                  | 70,864     | 68,313     |
| General plant                       | 17,075     | 15,848     |
| Processing plant                    | 2,642      | 2,607      |
| Construction in progress            | 151        | 1,610      |
| Total plant, property and equipment | 260,109    | 251,380    |

#### Accumulated depreciation

|                                |            |            |
|--------------------------------|------------|------------|
| Transmission plant             | 51,014     | 47,320     |
| Distribution plant             | 17,650     | 15,822     |
| General plant                  | 6,647      | 6,265      |
| Processing plant               | 1,881      | 1,749      |
| Total accumulated depreciation | 77,192     | 71,156     |
|                                | \$ 182,917 | \$ 180,224 |

During the year, the Company received contributions in aid of construction of \$178,000 [1998 - \$1,902,000] which have been recorded as a reduction of distribution plant.

### 3. INCOME TAXES

Income tax expense varies from the amount that would be expected if current rates were applied to income before income taxes for the following reasons:

| Percent                                                           | 1999  | 1998  |
|-------------------------------------------------------------------|-------|-------|
| Corporate income tax rate                                         | 45.6  | 45.6  |
| Benefit realized upon application of<br>loss carryforwards        | (2.2) | (3.5) |
| Large corporations tax                                            | 3.5   | 2.7   |
| Depreciation in excess of<br>capital cost allowance               | 2.4   | 2.6   |
| Deferred income taxes recorded on<br>regulatory deferred accounts | —     | 5.3   |
| Deferred charge expenditures deducted<br>for tax purposes         | (4.9) | (2.2) |
| Other items                                                       | .5    | (0.1) |
| Income tax rate recorded in the accounts                          | 44.9  | 50.4  |

### 4. PENSION PLANS

The Company and its subsidiary have defined contribution and defined benefit pension plans covering substantially all employees. The plans provide benefits based on length of service and earnings. Pension costs of \$491,000 were charged to operations during 1999 [1998 - \$469,000]. At December 31, 1999, the actuarial estimate of the present value of accrued pension benefits was \$12,060,000 [1998 - \$10,973,000], and the market value for actuarial purposes of the assets available to provide these benefits was \$13,147,000 [1998 - \$11,617,000].

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

### 5. EARNINGS PER COMMON SHARE

Earnings per common share have been calculated after deducting preferred share dividend requirements from net income. The weighted average number of common shares outstanding for the year ended December 31, 1999 was 3,535,457 [1998 - 3,533,289]. Earnings per share on a fully diluted basis were calculated after allowing for the exercise of employees' options on Class A common shares.

Net income used in determining fully diluted earnings per common share has been increased by \$71,000 in 1999 [1998 - \$61,000] to give effect to an imputed after tax return of 2.5% [1998 - 2.5%] on funds which would have been available on the exercise of options.

### 6. BANK INDEBTEDNESS

| Thousands of dollars                   | 1999             | 1998             |
|----------------------------------------|------------------|------------------|
| Outstanding cheques less cash balances |                  |                  |
| on hand                                | \$ 8,500         | \$ 547           |
| Bank demand operating line of credit   | 25,500           | 19,000           |
|                                        | <u>\$ 34,000</u> | <u>\$ 19,547</u> |

The Company has a bank demand operating line of credit of \$35 million which bears interest at bankers acceptance rates [December 31, 1999 - 5.1%].

### 7. LONG TERM DEBT

| Thousands of dollars                                                                                                                                                                                                      | 1999             | 1998             |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Secured Debentures [a]</b>                                                                                                                                                                                             |                  |                  |
| 2002 Series, 10.85% due July 15, 2002, payable in annual instalments of \$2,000,000, with a final instalment of \$12,000,000 at maturity.                                                                                 | \$ 16,000        | \$ 18,000        |
| 2011 Series, 10.75% due December 13, 2011, payable in annual instalments of \$700,000 and \$800,000 in each of years 2009 and 2010 with a final instalment of \$5,000,000 at maturity.                                    | 12,900           | 13,600           |
| 2018 Series, 8.75% due November 15, 2018, payable in annual instalments of \$600,000, commencing November 15, 1999 and \$1,000,000 in each of the years 2014 to 2017, with a final instalment of \$7,000,000 at maturity. | 19,400           | 20,000           |
| 2025 Series, 9.30% due July 18, 2025, payable in annual instalments of \$500,000, commencing July 18, 2004 with a final instalment of \$9,500,000 at maturity.                                                            | 20,000           | 20,000           |
| 2027 Series, 6.90% due December 2, 2027, payable in annual instalments of \$500,000, commencing December 2, 2006 with a final instalment of \$9,500,000 at maturity.                                                      | 20,000           | 20,000           |
| <b>Construction advances and other [b]</b>                                                                                                                                                                                | 603              | 621              |
|                                                                                                                                                                                                                           | <u>88,903</u>    | <u>92,221</u>    |
| Deduct long term debt due within one year shown as a current liability                                                                                                                                                    | 3,310            | 3,327            |
|                                                                                                                                                                                                                           | <u>\$ 85,593</u> | <u>\$ 88,894</u> |



[a] Collateral for the Secured Debentures consists of a specific first mortgage on substantially all of the Company's fixed assets and gas purchase and gas sales contracts, and a first floating charge on other property, assets and undertakings.

[b] Advances have been received from certain industrial concerns to enable construction of the facilities required to provide natural gas service. This financing is non-interest bearing and will be repaid as these customers meet their commitments for the purchase of natural gas.

[c] Payments required to meet sinking fund and retirement provisions during the next five years are as follows:

| Thousands of dollars |          |
|----------------------|----------|
| 2000                 | \$ 3,300 |
| 2001                 | 3,300    |
| 2002                 | 13,300   |
| 2003                 | 1,300    |
| 2004                 | 1,800    |

## 8. PREFERRED SHARES

| Thousands of dollars |                                                                            | 1999     | 1998      |
|----------------------|----------------------------------------------------------------------------|----------|-----------|
| <b>Authorized</b>    |                                                                            |          |           |
| 200,000              | 6.75% cumulative redeemable preferred shares with a par value of \$25 each |          |           |
| 1,400,000            | cumulative redeemable junior preferred shares with a par value of \$10     |          |           |
| <b>Issued</b>        |                                                                            |          |           |
| 200,000              | 6.75% preferred shares                                                     | \$ 5,000 | \$ 5,000  |
| 171,500              | junior preferred shares                                                    |          |           |
|                      | [1998 - 526,091]                                                           | 1,715    | 5,261     |
|                      |                                                                            | \$ 6,715 | \$ 10,261 |

The junior preferred shares are redeemable on a quarterly basis in amounts equal to 90% of the tax savings realized from the utilization of the non-capital loss carryforwards arising from the acquisition in 1996 of all of the outstanding shares of Centra Gas Victoria Inc., a company related through common control. The Company may, at its option, satisfy the redemption requirements by issuing Class A non-voting common shares of the Company at an issue price per common share of 85% of the weighted average trading price of the

Class A non-voting common shares for the 20 business days preceding the date of the notice of redemption.

During 1999, the Company redeemed 354,591 [1998 - 334,768] junior preferred shares for cash consideration of \$3,545,910 [1998 - \$3,347,680].

The 6.75% preferred shares are redeemable at the option of the Company at \$26 per share plus any accrued and unpaid dividends at the date of redemption.

## 9. COMMON SHARES

| Thousands of dollars |                                                                  | 1999     | 1998     |
|----------------------|------------------------------------------------------------------|----------|----------|
| <b>Authorized</b>    |                                                                  |          |          |
| 6,000,000            | Class A non-voting common shares with a par value of \$2.50 each |          |          |
| 20,000               | Class B voting common shares with a par value of \$2.50 each     |          |          |
| <b>Issued</b>        |                                                                  |          |          |
| 3,515,660            | Class A common shares                                            |          |          |
|                      | [1998 - 3,514,460]                                               | \$ 8,789 | \$ 8,786 |
| 20,000               | Class B common shares                                            | 50       | 50       |
|                      |                                                                  | \$ 8,839 | \$ 8,836 |

The Company has a stock option incentive plan under which share options are granted to certain of its employees. Share options are granted at an exercise price equal to the market price of the Company's common shares on the date of the grant.

Share options vest in five equal stages with the first stage vesting on the date of the grant, and the remainder in four equal annual stages commencing on the first anniversary of the date of the grant. The maximum term of options awarded is ten years.

As of December 31, 1999, 140,100 shares are reserved for issuance pursuant to options that may be granted under the stock option incentive plan.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

A summary of the status of the Company's option plan as of December 31, 1999 and 1998, and changes during the years ending on those dates is presented below.

|                                  | 1999             |                                 | 1998             |                                 |
|----------------------------------|------------------|---------------------------------|------------------|---------------------------------|
|                                  | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| Outstanding at beginning of year | 118,640          | \$19.86                         | 105,540          | \$17.76                         |
| Granted                          | 20,300           | 24.50                           | 19,000           | 30.00                           |
| Exercised                        | (1,200)          | 20.00                           | (5,900)          | 14.92                           |
| Outstanding at end of year       | 137,740          | 20.55                           | 118,640          | 19.86                           |
| Options exercisable at year-end  | 101,780          | 18.86                           | 85,400           | 18.02                           |

A summary of options outstanding and exercisable as of December 31, 1999 is presented below.

| Expiry Date      | Options outstanding Number of Shares | Option Price | Options exercisable Number of Shares | Option Price |
|------------------|--------------------------------------|--------------|--------------------------------------|--------------|
| April 27, 2000   | 13,160                               | \$10.750     | 13,160                               | \$10.750     |
| January 28, 2002 | 6,880                                | 14.125       | 6,880                                | 14.125       |
| May 4, 2003      | 7,800                                | 15.750       | 7,800                                | 15.750       |
| November 7, 2005 | 29,800                               | 20.000       | 29,800                               | 20.000       |
| March 14, 2006   | 20,600                               | 18.750       | 19,520                               | 18.750       |
| March 14, 2007   | 20,200                               | 20.750       | 12,960                               | 20.750       |
| March 24, 2008   | 19,000                               | 30.000       | 7,600                                | 30.000       |
| March 11, 2009   | 20,300                               | 24.500       | 4,060                                | 24.500       |
|                  | 137,740                              |              | 101,780                              |              |

During 1999, the Company issued 1,200 [1998 - 5,900] Class A common shares for cash consideration of \$24,000 [1998 - \$88,000] upon the exercise of employee options. Of this amount, \$21,000 [1998 - \$73,000] representing the excess of the issue price over the par value of the shares has been credited to contributed surplus.

### 10. RELATED PARTY TRANSACTIONS

The Company's transactions with related parties are as follows:

| Thousands of dollars                                                              | 1999   | 1998   |
|-----------------------------------------------------------------------------------|--------|--------|
| <b>Westcoast Energy Inc., parent company</b>                                      |        |        |
| Transportation services                                                           | \$ 836 | \$ 686 |
| Materials and services                                                            | 919    | 975    |
| <b>Centra Gas British Columbia Inc., a company related through common control</b> |        |        |
| Materials and services                                                            | 88     | 189    |
| <b>Enlogix CIS L.P., a company related through common control</b>                 |        |        |
| Services                                                                          | 331    | —      |
| <b>Engage Energy Canada, L.P., an entity related through common control</b>       |        |        |
| Natural gas purchases and services                                                | 642    | 821    |
| Sales                                                                             | —      | 723    |

Accounts payable and accrued liabilities as at December 31, 1999 include \$1,681,000 [1998 - \$724,000] in respect of the above related party transactions.

These transactions are in the normal course of operations and are recorded at amounts established and agreed between the related parties.

### 11. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of debt instruments included in the consolidated balance sheets are as follows:

| Thousands of dollars | Carrying value |           | Fair value |            |
|----------------------|----------------|-----------|------------|------------|
|                      | 1999           | 1998      | 1999       | 1998       |
| Long term debt       | \$ 88,903      | \$ 92,221 | \$ 97,058  | \$ 107,830 |

The fair values of the Company's long term debt are estimated by reference to quoted market prices for actual or similar instruments.

The fair values of other financial instruments included in the consolidated balance sheets, including accounts receivable, bank indebtedness, income and other taxes payable, and accounts payable and accrued liabilities approximate their carrying values.



## 12. CONTINGENCY

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The Company and its subsidiary have made the transition to the year 2000 without incident. The Company is continuing to monitor its systems for date related issues. Although the change in date has occurred and no evidence of any issues has been detected, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

## 13. NATURAL GAS AND INTEREST RATE CONTRACTS

The Company's tolls are set using a forecasted price for gas. However, the Company's gas supply contracts contain pricing mechanisms that reflect monthly variations in the price of gas, rather than fixed prices. At December 31, 1999, the Company has entered into natural gas price swap contracts to effectively fix the price for approximately 0.81 billion cubic feet or 7.5% of its forecast 2000 system gas supply. In addition to the above mentioned swap contracts at December 31, 1999 the Company has also entered into natural gas price collar contracts to provide a ceiling and floor price for approximately 0.55 billion cubic feet or 5.1% of its forecast 2000 system gas supply. The difference between the price of gas used for toll purposes and the actual cost of gas purchased is deferred and refunded to or recovered from customers as directed by the Commission. The swap contracts have a fair value of \$730,791 payable at December 31, 1999 [\$127,000 receivable at December 31, 1998]. The collar contracts have a fair value of \$366,977 payable at December 31, 1999 [\$74,000 at December 31, 1998]. The fair values reflect the estimated amounts that the Company would pay to terminate the swap and collar contracts respectively at December 31, 1999, based on the estimated future net cash flows under the terms of each contract.

Tolls for customers of Pacific Northern Gas (N.E.) Ltd. are predicated on \$8 million of long-term debt financing.

Accordingly, the Company is party to an interest rate swap contract that converts the interest rate characteristics of \$8 million of short-term borrowings from floating to a fixed rate of 7.70% until October 2004. The swap contract has a fair value of \$411,000 payable at December 31, 1999. The fair value represents the amount the Company would have to pay to terminate the swap contract at December 31, 1999, based on the quoted market prices for similar instruments.

These estimated fair market values have no impact on earnings [see also note 11] due to the regulated nature of the Company's operations. Based on the current regulatory process, any gains or losses arising from utility related financial instruments would be treated as part of the cost of service.

## 14. STATEMENT OF CASH FLOW

Effective January 1, 1999, accounting principles generally accepted in Canada require the statement of cash flow to report actual cash flows during the period resulting from operating, investing, and financing activities. Investing and financing transactions not requiring the use of cash or cash equivalents are excluded from the statement of cash flow. The Company has adopted this new accounting principle effective January 1, 1999. The comparative financial statements and notes to the financial statements have been restated to conform to the 1999 presentation.

### Supplemental cash flow information

| Thousands of dollars | 1999     | 1998     |
|----------------------|----------|----------|
| Income taxes paid    | \$ 706   | \$ 302   |
| Interest paid        | \$ 9,539 | \$ 9,739 |

## 15. SUBSEQUENT EVENTS

The Company has applied for changes to its rates to customers effective January 1, 2000.

The applied for return on common equity for 2000 is 10.75% for Pacific Northern Gas Ltd. and the Tumbler Ridge Division of Pacific Northern Gas (N.E.) Ltd. [1999 - 10.00%], and 10.00% for the Fort St. John/Dawson Creek Division of Pacific Northern Gas (N.E.) Ltd. [1999 - 9.50% for Centra Gas Fort St. John Inc. and 10.00% for the Dawson Creek Division of Pacific Northern Gas (N.E.) Ltd.].

## TEN YEAR REVIEW

(Dollar amounts are in thousands except per share and per GJ figures)

| For the year ended December 31 | 1999          | 1998          | 1997          | 1996          |
|--------------------------------|---------------|---------------|---------------|---------------|
| <b>DELIVERIES (TJ)*</b>        |               |               |               |               |
| Residential                    | 4,202         | 3,688         | 3,796         | 3,056         |
| Commercial                     | 3,108         | 2,897         | 3,162         | 2,559         |
| Small Industrial               | 3,694         | 3,704         | 2,972         | 2,120         |
| Large Industrial               | 31,573        | 28,498        | 32,365        | 30,981        |
| <b>Total energy delivered</b>  | <b>42,577</b> | <b>38,787</b> | <b>42,295</b> | <b>38,716</b> |
| <b>Customers at year-end</b>   | <b>39,238</b> | <b>38,808</b> | <b>37,669</b> | <b>27,978</b> |

### AVERAGE RATES PER GJ\*

|             |         |      |      |      |
|-------------|---------|------|------|------|
| Residential | \$ 6.16 | 5.80 | 5.68 | 4.90 |
| Commercial  | 4.84    | 4.41 | 4.41 | 3.58 |

### REVENUE

|                  |           |        |        |        |
|------------------|-----------|--------|--------|--------|
| Residential      | \$ 25,881 | 21,380 | 21,552 | 14,971 |
| Commercial       | 15,036    | 12,763 | 13,952 | 9,157  |
| Small industrial | 6,356     | 4,912  | 4,848  | 3,354  |
| Large industrial | 29,967    | 31,883 | 35,166 | 33,842 |
| Off-System       | —         | 754    | 1,804  | 1,068  |
| Other            | 498       | 452    | 539    | 431    |
|                  | \$ 77,738 | 72,144 | 77,861 | 62,823 |

### EXPENSES

|                             |                 |              |              |              |
|-----------------------------|-----------------|--------------|--------------|--------------|
| Cost of sales               | \$ 24,778       | 20,887       | 27,295       | 14,975       |
| Operating                   | 22,876          | 20,615       | 19,877       | 16,611       |
| Interest                    | 9,050           | 9,307        | 8,903        | 8,822        |
| Depreciation & amortization | 8,094           | 8,322        | 7,067        | 6,792        |
| Income taxes                | 5,815           | 6,559        | 6,793        | 8,238        |
|                             | \$ 70,613       | 65,690       | 69,935       | 55,438       |
| <b>Net income</b>           | <b>\$ 7,125</b> | <b>6,454</b> | <b>7,926</b> | <b>7,385</b> |

### PER COMMON SHARE

|           |         |      |      |      |
|-----------|---------|------|------|------|
| Earnings  | \$ 1.92 | 1.73 | 2.16 | 2.01 |
| Dividends | 1.12    | 1.10 | 1.00 | 0.96 |

### CAPITALIZATION

|                                          |                   |                |                |                |
|------------------------------------------|-------------------|----------------|----------------|----------------|
| Long-term debt                           | \$ 85,593         | 88,894         | 92,135         | 74,862         |
| Deferred income taxes                    | 12,789            | 11,126         | 7,119          | 1,863          |
| Preferred shares                         | 6,715             | 10,261         | 13,609         | 18,910         |
| Common equity                            | 64,311            | 61,459         | 59,142         | 54,785         |
| <b>Total capitalization</b>              | <b>\$ 169,408</b> | <b>171,740</b> | <b>172,005</b> | <b>150,420</b> |
| Utility plant                            |                   |                |                |                |
| In service (net)                         | \$ 182,766        | 178,614        | 176,103        | 156,995        |
| Construction in progress                 | 151               | 1,610          | 1,459          | 1,244          |
| <b>Total investment in utility plant</b> | <b>\$ 182,917</b> | <b>180,224</b> | <b>177,562</b> | <b>158,239</b> |



| 1995    | 1994    | 1993    | 1992    | 1991    | 1990    |
|---------|---------|---------|---------|---------|---------|
| 2,644   | 2,580   | 2,336   | 1,510   | 1,517   | 1,392   |
| 2,217   | 2,183   | 2,102   | 1,420   | 1,484   | 1,518   |
| 1,905   | 1,924   | 1,984   | 1,574   | 1,518   | 1,456   |
| 27,890  | 31,339  | 31,084  | 29,592  | 30,734  | 30,527  |
| 34,656  | 38,026  | 37,506  | 34,096  | 35,253  | 34,893  |
| 26,638  | 25,714  | 24,667  | 17,282  | 16,042  | 14,984  |
| 5.30    | 5.31    | 5.03    | 5.15    | 4.83    | 4.56    |
| 4.58    | 4.65    | 4.36    | 4.54    | 4.33    | 4.17    |
| 14,026  | 13,708  | 11,740  | 7,770   | 7,321   | 6,349   |
| 10,161  | 10,148  | 9,158   | 6,443   | 6,427   | 6,327   |
| 4,013   | 3,903   | 3,665   | 2,486   | 3,048   | 3,985   |
| 30,237  | 34,125  | 32,566  | 32,364  | 51,202  | 59,209  |
| 2,119   | —       | —       | —       | —       | —       |
| 442     | 442     | 345     | 246     | 299     | 313     |
| 60,998  | 62,326  | 57,474  | 49,309  | 68,297  | 76,183  |
| 19,943  | 22,281  | 20,390  | 17,302  | 35,886  | 45,669  |
| 16,518  | 16,527  | 16,143  | 13,096  | 12,037  | 11,148  |
| 8,915   | 7,918   | 7,781   | 7,504   | 7,523   | 7,709   |
| 5,646   | 4,969   | 4,420   | 4,136   | 3,805   | 3,819   |
| 3,785   | 4,030   | 2,777   | 1,868   | 3,078   | 2,280   |
| 54,807  | 55,725  | 51,511  | 43,906  | 62,329  | 70,625  |
| 6,191   | 6,601   | 5,963   | 5,403   | 5,968   | 5,558   |
| 1.67    | 1.80    | 1.63    | 1.48    | 1.67    | 1.56    |
| 0.94    | 0.88    | 0.88    | 0.80    | 0.78    | 0.75    |
| 80,056  | 63,990  | 67,937  | 51,875  | 55,817  | 42,763  |
| 15,514  | 15,731  | 15,703  | 14,877  | 14,919  | 14,919  |
| 5,000   | 5,000   | 5,000   | 5,000   | 5,000   | 5,000   |
| 51,038  | 48,432  | 44,787  | 42,020  | 39,357  | 35,983  |
| 151,608 | 133,153 | 133,427 | 113,772 | 115,093 | 98,665  |
| 154,421 | 145,047 | 135,187 | 122,999 | 118,808 | 117,210 |
| 1,929   | 2,590   | 1,789   | 1,028   | 1,553   | 1,108   |
| 156,350 | 147,637 | 136,976 | 124,027 | 120,361 | 118,318 |

## REPORT ON CORPORATE GOVERNANCE

The bylaws of the Toronto Stock Exchange ("TSE") require that the Company disclose the corporate governance practices of its Board of Directors ("Board"). The following report addresses the principal responsibilities of a board of directors contained in the guidelines for corporate governance established by the TSE.

Through its Corporate Governance Committee (the "Committee"), the Board will develop sound corporate governance practices to enhance corporate performance.

### BOARD OF DIRECTORS:

The Board, as set out in its terms of reference, has the responsibility for overseeing the conduct of the business of the Company and the activities of management which is responsible for the day to day operations of the business.

### COMPOSITION OF THE BOARD:

The Board is composed of nine directors. One of the directors is a full-time officer of the Company, two are full-time officers of the Company's parent, Westcoast Energy Inc. ("Westcoast"), which owns 100% of the voting common shares and is therefore considered a significant shareholder, and one recently retired as the President and Chief Operating Officer of Westcoast and continues to provide consulting services to Westcoast. The TSE Guidelines provide that a director related to a significant shareholder should not be considered a related director of the subsidiary company. The remaining five directors do not have interests in or relationships with the Company or its parent (other than interests and relationships arising from shareholdings) which could, or could reasonably be perceived to materially interfere with such directors' ability to act with a view to the best interests of the Company. The Board has concluded that a majority of the directors of the Company are outside and unrelated.

### COMMITTEES OF THE BOARD:

The Board has established and adopted terms of reference for each of the Audit, Executive, Environment, Health and Safety, Compensation and Corporate Governance Committees. The terms of reference for the Environment, Health and Safety Committee were recently reviewed and amended to expand the Committee's mandate to include health and safety matters and to change the Committee's name from the Environment Committee.

The *Audit Committee* is composed of unrelated directors, of whom a majority including the Chair are outside directors. One of the three committee members is a full-time officer of West-

coast. This committee is broadly responsible for ensuring that the Company's management has designed and implemented an effective system of internal financial controls, for reviewing and reporting on the integrity of the consolidated financial statements of the Company, for ensuring compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and the disclosure of material facts and for reviewing the appropriateness and effectiveness of the Company's policies and business practices which impact on the financial integrity of the Company, including those relating to internal auditing, insurance, accounting, information services and systems and financial controls, management reporting and risk management.

The *Executive Committee* is narrowly mandated to act as the approving body for expenditures which have been broadly approved by the Board and which are beyond the approval levels of the President and Chief Executive Officer and to perform such functions and exercise such powers specifically delegated to the committee by the Board. It is composed of three directors, one of whom is a full-time officer of the Company and another who provides consulting services to Westcoast. The Board has determined that a majority of the committee members is unrelated.

The *Environment, Health and Safety Committee*, previously the Environment Committee, is composed of three directors, one of whom is a full-time officer of the Company. A majority of the committee members are outside and unrelated. This committee is responsible for reviewing and monitoring the policies and activities of the Company relating to environment, health and safety matters on behalf of the Board.

The *Compensation Committee* is composed of directors who are unrelated. One of the three members is a full-time officer of Westcoast. This committee is generally responsible for recommending to the Board human resources and compensation policies and guidelines for application to the Company and for implementing and overseeing human resources and compensation policies approved by the Board. In addition, it is responsible for periodically reviewing the adequacy and form of the compensation of directors and for ensuring that the compensation realistically reflects the responsibilities and risks involved in being an effective director of the Company and for reporting and making recommendations to the Board accordingly.

The *Corporate Governance Committee* is composed of unrelated directors, a majority of whom, including the Chair, are outside directors. One of the members of this committee provides consulting services to Westcoast. This committee's prime responsibility is for developing and monitoring the Company's overall approach to

corporate governance issues and for administering a corporate governance system which is effective in the discharge of the Company's obligations to its shareholders. The nominating responsibility of this committee includes proposing new members to the Board, establishing criteria for Board membership, recommending composition of the Board and its committees, assessing directors' performance on an ongoing basis and developing an orientation and education program for new members of the Board.

### CHAIRMAN:

The Board has determined that the present Chairman of the Board is an outside and unrelated director and independent of management.

### SHAREHOLDER FEEDBACK AND CONCERNS:

In conjunction with the Westcoast investor relations department, the Company maintains an active shareholder relations program. The program is designed to ensure that shareholder inquiries receive a prompt response either from the investor relations department or an appropriate officer of the Company.

### DECISIONS REQUIRING BOARD APPROVAL:

The Board operates by seeking the advice of and delegating powers, duties and responsibilities to committees of the Board, by delegating certain of its authorities to management and by reserving certain powers to itself. In addition to those matters which must by law be approved by the Board, the Board retains the responsibility for managing its own affairs including selecting its Chair, nominating candidates for election to the Board, constituting committees of the Board and determining director compensation.

### EXPECTATIONS OF MANAGEMENT:

Members of the management team report to the Board on a regular basis to review the Company's financial and operational results and the Company's progress in fulfilling its strategic goals and objectives. The Board develops processes for defining its expectations of management such as reviews of the Company's strategic plan with management and a comprehensive review of the performance of the President and Chief Executive Officer, which review is carried out by the Compensation Committee.

### CONCLUDING STATEMENT:

The Company has adopted the recommendations for improved corporate governance established by the TSE.



## CORPORATE INFORMATION

### DIRECTORS

**Robert F. Chase**<sup>1, 5</sup>

President and Chief Executive Officer  
Lexacal Investment Corp.  
Vancouver, British Columbia

**Roy G. Dyce**<sup>3, 4</sup>

President and Chief Executive Officer  
Pacific Northern Gas Ltd.  
Vancouver, British Columbia

**Roy Illing**<sup>2</sup>

Energy and Transportation Industry Consultant  
Victoria, British Columbia

**Hugh C. Morris**<sup>1, 2, 3</sup>

Mineral Industry Consultant  
Delta, British Columbia

**Robert F. O'Shaughnessy**<sup>3</sup>

Company Director  
Galiano Island, British Columbia

**Kenneth E. Rekrutiak**<sup>2</sup>

Senior Vice President and  
Chief Information Officer  
Westcoast Energy Inc.  
Vancouver, British Columbia

**Richard D. Walker**<sup>4, 5</sup>

Company Director  
Vancouver, British Columbia

**Arthur H. Willms**<sup>4, 5</sup>

Director of Westcoast Energy Inc.  
Vancouver, British Columbia

**Eric L. Schwitzer**<sup>1</sup>

Senior Vice President, Strategic Development  
Westcoast Energy Inc.  
Vancouver, British Columbia

<sup>1</sup> Audit Committee

<sup>2</sup> Compensation Committee

<sup>3</sup> Environment, Health and Safety Committee

<sup>4</sup> Executive Committee

<sup>5</sup> Corporate Governance Committee

### OFFICERS

**A.H. Willms**

Chairman of the Board

**R. G. Dyce**

President and Chief Executive Officer

**G. B. Weeres**

Vice President,  
Operations and Engineering

**J.M. McLeod**

Treasurer

**J.H. Podmore**

Acting Comptroller

**D.G. Unruh**

Secretary

**K. Stark-Anderson**

Assistant Secretary

### HEAD OFFICE

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Facsimile: 604-691-5863

### PRINCIPAL FIELD

#### OPERATING OFFICE

2900 Kerr Street

Terrace BC V8G 4L9

### REGISTRAR AND

#### TRANSFER AGENT

Montreal Trust Company

Vancouver, Calgary,

Regina, Winnipeg,

Toronto, Montreal

### AUDITORS

Ernst & Young LLP

Vancouver BC

### ANNUAL MEETING

The Annual Meeting of the Shareholders of Pacific Northern Gas Ltd. will be held in the Stanley Room at the Hyatt Regency Vancouver Hotel, Vancouver, British Columbia on Thursday, April 20, 2000 at 10:00 am (local time).



**Pacific  
Northern  
Gas Ltd.**

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